



## Santa Cruz County Bank Reports Record Earnings for the Second Quarter Ended June 30, 2018

**SANTA CRUZ, CA – July 17, 2018:** Santa Cruz County Bank (OTC: SCZC), a top rated, locally owned and operated full-service community bank headquartered in Santa Cruz County, today announced record unaudited net income for the second quarter ended June 30, 2018 of \$2.7 million. This represents the best quarter in the Bank’s history, an increase of 8% compared to the prior quarter, (which was the previous record), and an increase of 41% compared to the same quarter in 2017. Basic earnings per share increased \$0.24 to \$1.12, a 27% increase over the second quarter in 2017.

Pretax income for the quarter ended June 30, 2018 was \$3.8 million, an increase of \$627 thousand, 20%, compared to \$3.2 million for the quarter ended June 30, 2017.

President and CEO David V. Heald commented, “We are very pleased to achieve two successive quarters of historical earnings. In correlation with our continued growth, the Bank will end the third quarter in our new headquarters in Santa Cruz. Our new headquarters will afford us higher visibility, with ample parking and an additional ATM for convenience to attract new business while deepening existing relationships. We look forward to serving the community in our new location in September.”

Selected financial information is presented in the following table:

	Three-Months Ended,		
	06.30.18	06.30.17	03.31.18
<b>Balance Sheet</b>			
Total assets	\$635,257,256	\$595,987,021	\$645,433,140
Gross loans	472,416,858	431,236,076	469,167,787
Allowance for loan losses	9,505,222	8,691,576	9,361,394
Non-interest-bearing deposits	236,977,923	226,963,043	235,338,447
Total deposits	563,842,148	532,848,989	576,321,840
Shareholders’ equity	62,571,082	54,581,855	59,915,665
<b>Net Income</b>			
	\$2,721,464	\$1,927,312	\$2,530,989
<b>Ratios</b>			
Net interest margin	4.69%	4.35%	4.47%
Tier 1 leverage ratio	9.96%	9.26%	9.47%
Return on average assets	1.73%	1.30%	1.62%
Return on average equity	17.73%	14.31%	17.43%
Efficiency ratio	49.73%	52.71%	51.35%
<b>Share and Per Share Data</b>			
Basic earnings per common share	\$1.12	\$0.88	\$1.04
Book value per common share	\$25.64	\$24.82	\$24.61
Total common shares outstanding	2,439,969	2,198,946	2,432,661

## **Second Quarter Financial Highlights:**

- Net interest margin of 4.69%
- Second quarter return on average assets and equity of 1.73% and 17.79%, respectively
- Well capitalized with a total risk based capital ratio of 13.16%
- Continued exceptional credit quality with no loans on non-accrual
- 10% growth in loans, \$41.2 million increase over the second quarter of 2017
- 6% growth in deposits, \$31 million increase over the second quarter of 2017
- Basic earnings per share increased to \$1.12 from \$0.88 over the second quarter of 2017
- Book value per share after dividends increased by \$0.82 or 3%, to \$25.64 over the second quarter of 2017

### **Loans, Asset Quality & Deposits**

Total assets declined by \$10.2 million to \$635.3 million in the second quarter, which reflects a seasonal pattern; however, the Bank experienced growth of \$39.3 million over the last twelve months. The Bank's asset quality remained exceptional. For the second quarter, gross loans increased by \$3.2 million, and year over year increased \$41.2 million, 10% to \$472.4 million. Allowance for loan losses of \$9.5 million at June 30, 2018 represents a 9% increase over the same period last year. Deposits grew by 6%, \$31 million since June 30, 2017.

### **Non-Interest Income / Expense and Net Interest Margin**

A component of the Bank's core business is the origination and sale of loans generated by its top producing SBA Department which results in gains that are included in non-interest income. For the second quarter of 2018, the non-interest income total was \$824 thousand which included \$204 thousand of gains on loans sold.

Non-interest expense for the three-month period ended June 30, 2018, at \$4 million was nearly unchanged from prior quarter and increased only 5% or \$198 thousand compared to the same period last year.

Net interest income of \$7.1 million for the quarter ended June 30, 2018 improved 5% or \$378 thousand over prior quarter and exceeded the second quarter of 2017 by \$934 thousand or 15%. The year over year improvement is driven by a continued focus on building high quality earning assets through loan production and the benefit from rate increases implemented by the Federal Open Market Committee. Consequently, net interest margin at 4.69% improved 34 basis points over prior year.

### **Shareholders' Equity**

Total shareholders' equity was \$62.6 million at June 30, 2018, an \$8 million, 15% increase over June 30, 2017. The value added to our shareholders was due to continued strong earnings. This increase was reduced by the payout of quarterly cash dividends. Common stock cash dividends totaled \$183 thousand or \$0.075 per share for the quarter ended June 30, 2018. Historically, the Bank has paid twenty consecutive \$0.05 cash dividends, and most recently, one \$0.075 cash dividend, totaling over \$2.3 million to shareholders. The Bank also issued one 10% stock dividend in November 2017.

For the six month period ended June 30, 2018, the Bank's return on average equity was 17.58% and return on average assets was 1.67%. The book value per share of Santa Cruz County Bank's common stock at June 30, 2018 was \$25.64, up \$0.24 from the same period in 2017.

### **NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS**

S&P Global Top 100 Community Banks 2017: Santa Cruz County Bank ranked 63<sup>rd</sup> in the nation out of nearly 3,000 banks with assets under \$1 billion based upon 2017 performance. The Bank has ranked in the Top 100 Community Banks by S&P Global for two consecutive years.

Financial Management Consulting (FMC) Group: Santa Cruz County Bank is the top bank in California in overall performance among 159 banks, and also ranked 1<sup>st</sup> in asset quality as well as 1<sup>st</sup> (lowest) in non-performing assets for its first quarter, March 31, 2018 financial performance. The Bank has ranked in FMC's top ten banks in California for the past three years.

The Findley Reports, Inc.: Santa Cruz County Bank was named a Super Premier Performing Bank for its 2017 performance. The Bank has received the top ranking of Super Premier by Findley for eight consecutive years.

Bauer Financial Reports, Inc.: Santa Cruz County Bank rated five star or “Superior” for its financial strength for the quarter ended March 31, 2018.

American Banker Magazine: Santa Cruz County Bank ranked 22<sup>nd</sup> out of 633 institutions in American Banker Magazine’s “Top Performing 200 Community Banks & Thrifts in the United States” based upon 3-year average return on equity. The Bank has ranked in the Top 200 Community Banks in the United States for five consecutive years.

Independent Banker Magazine, published by the ICBA: Santa Cruz County Bank ranked 22<sup>nd</sup> in its Top Best Performing Member Community Banks for return on average equity.

### **COMMUNITY AWARDS AND RECOGNITION**

2018: Farm Bureau of Santa Cruz County, Al Smith Friend of Agriculture Award, for support of the agricultural industry.

2018: Voted “Best Bank” by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County for six consecutive years.

2018: Voted “Best Bank” by the readers of Santa Cruz Sentinel, a daily publication with distribution throughout Santa Cruz County for four consecutive years.

2017: Second Harvest Food Bank of Santa Cruz County “Big Step Award” for the 2016 Holiday Food Drive.

2016: United Way of Santa Cruz County “Corporate Spirit Award” for outstanding support and leadership.

### **ABOUT SANTA CRUZ COUNTY BANK**

Santa Cruz County Bank, founded in 2004, is a locally owned and operated community bank with offices located in Aptos, Capitola, Santa Cruz, Scotts Valley and Watsonville. The bank offers a variety of competitive deposit and lending solutions for businesses and individuals; including business loans, lines of credit, commercial real estate financing, agricultural loans, SBA and USDA government guaranteed loans, credit cards, merchant services, remote deposit capture, mobile and online banking, bill payment, and cash management. For the past ten years, the Bank’s SBA Department has been recognized as a top SBA lender in Santa Cruz County. Santa Cruz County Bank is a top USDA lender in the state of California.

Santa Cruz County Bank stock is publicly traded on the OTC marketplace under the stock symbol SCZC. Stock purchase orders may be placed through a brokerage firm or one of the Market Makers listed in the Investor Relations section of the bank’s website. For more information about Santa Cruz County Bank, please visit our website [www.sccountybank.com](http://www.sccountybank.com).

*This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank is conducting its operations, including the real estate market in California and other factors beyond the Bank’s control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. Readers should not place undue reliance on the forward-looking statements, which reflect management’s view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.*

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Selected Financial Data (unaudited)

	Quarter ended		Change		Quarter ended		Change				
	6/30/18	6/30/17	\$	%	3/31/18	\$	%	6/30/18	6/30/17	\$	%
<b>Balance Sheet</b>											
Total assets	\$ 635,257,256	\$ 595,987,021	\$ 39,270,235	7%	\$ 645,433,140	\$ (10,175,884)	-2%				
Gross loans	472,416,858	431,236,076	41,180,782	10%	469,167,787	3,249,071	1%				
Allowance for loan losses	9,505,222	8,691,576	813,646	9%	9,361,394	143,828	2%				
Non interest-bearing deposits	236,977,923	226,963,043	10,014,880	4%	235,338,447	1,639,476	1%				
Total deposits	563,842,148	532,848,989	30,993,159	6%	576,321,840	(12,479,692)	-2%				
Shareholders' equity	62,571,082	54,581,855	7,989,227	15%	59,915,665	2,655,417	4%				
<b>Income Statement</b>											
								Six-months ended	Six-months ended	Change	
								6/30/18	6/30/17	\$	%
Interest income	7,444,742	6,393,880	1,050,862	16%	7,066,527	378,215	5%	14,511,269	12,588,236	\$ 1,923,033	15%
Interest expense	297,400	180,541	116,859	65%	290,910	6,490	2%	588,310	352,295	236,015	67%
Net interest income	7,147,342	6,213,339	934,003	15%	6,775,617	371,725	5%	13,922,959	12,235,941	1,687,018	14%
Provision for loan losses	187,500	187,500	-	0%	187,500	-	0%	375,000	487,500	(112,500)	-23%
Non-interest income	824,404	933,317	(108,913)	-12%	944,924	(120,520)	-13%	1,769,328	1,818,334	(49,006)	-3%
Non-interest expense	3,965,251	3,767,193	198,058	5%	3,964,134	1,117	0%	7,929,385	7,288,482	640,903	8.8%
Net income before taxes	3,818,995	3,191,963	627,032	20%	3,568,907	250,088	7.0%	7,387,902	6,278,293	1,109,609	18%
Income tax expense	1,097,531	1,264,651	(167,120)	-13%	1,037,918	59,613	6%	2,135,449	2,475,723	(340,274)	-14%
Net income after taxes	\$ 2,721,464	\$ 1,927,312	794,152	41%	\$ 2,530,989	190,475	8%	\$ 5,252,453	\$ 3,802,570	1,449,883	38%
<b>BASIC EARNINGS PER SHARE</b>											
	\$ 1.12	\$ 0.88	0.24	27%	\$ 1.04	0.08	8%	\$ 2.16	\$ 1.74	\$ 0.42	24%
Book value per share	\$ 25.64	\$ 24.82	0.82	3%	\$ 24.61	1.03	4%	\$ 25.64	\$ 24.82	\$ 0.82	3%
<b>SHARES OUTSTANDING</b>											
	2,439,969	2,198,946			2,432,661						
<b>Ratios</b>											
Net interest margin	4.69%	4.35%			4.47%			4.58%	4.31%		
Tier 1 leverage ratio	9.96%	9.26%			9.47%			9.96%	9.26%		
Return on average assets	1.73%	1.30%			1.62%			1.67%	1.29%		
Return on average equity	17.73%	14.31%			17.43%			17.58%	14.46%		
Efficiency ratio	49.73%	52.71%			51.35%			50.53%	51.85%		
<b>% of non interest bearing to total deposits</b>											
	42%	43%			41%						